



March 8, 2010

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

RE: Comments on Part 704 Corporate Credit Unions

CUAO appreciates the opportunity to provide input on the Proposed Rulemaking on National Credit Union Administration (NCUA) regulation, Part 704, regarding Corporate Credit Unions (CCUs).

The Credit Union Association of Oregon (CUAO) is a nonprofit, professional trade association representing Oregon's state, community, and federally chartered credit unions. Since 1936, CUAO has been at the forefront of credit union issues at the state, regional, and national level, and provides a voice for Oregon's 1.4 million credit union members on issues impacting credit unions at a local level.

We are pleased to offer input on proposed modifications to the corporate business model to allow for a safe and secure partner our credit unions can rely on for their payment, clearing, transfer, liquidity, settlement and investment needs. The following comments will also establish the desire of Oregon credit unions for continuation of the corporate system, allowing for strategic and reasonable changes.

Background

A whirlwind of economic circumstances, including volatile markets, rapidly declining home values, unemployment, and the (predictable?) results of unprecedented mortgage lending speculation by some lenders, presented an environment which severely affected the performance of mortgage-backed securities (MBS) holdings of some CCUs. As a result MBS marketability declined significantly. CCUs were forced to look for alternatives to meet liquidity demands, rather than force unrealized losses to become realized losses at a time when actual credit impairment of the underlying assets was viewed by many as unlikely. What became known as the "perfect storm" set about an industry tsunami second to none, in recent memory.

While certainly there is agreement that significant changes are necessary and we support NCUAs evaluation and prudent revisions to the corporate rules, we would caution you to not overreact or over regulate. As proposed, many of the changes will result in the demise of the corporate system to the detriment of Natural Person Credit Unions (NPCU) at a time when they most need the support and services of their corporate partner.

One of Oregon's smaller credit unions, with \$17 million in assets and 2500 members, relies on WesCorp for draft processing and Southwest Corporate for ACH, settlement and liquidity services. These CCUs provide this small NPCU affordable correspondent services necessary to continue to provide services to their credit union members. Affordable, alternative correspondent service options are not available.

If CCUs vanished today, what would be the biggest loss to our credit unions? The user-friendly interfaces to corporate services would be very difficult to replace. Credit unions like the option to access corporate services through one easy-to-use, secure web interface. Most credit unions do not have the staff or the resources to utilize these services directly through the Federal Reserve. They also do not have the time or expertise to investigate other options available to them elsewhere. Without CCUs, the only other option is a correspondent relationship at a bank. This choice is fundamentally not one acceptable to most of our credit unions.

However, there is room for significant consolidation to take place within the corporate network to eliminate redundancy and increase operating efficiencies.

Throughout 2009, industry representatives were repeatedly told that CCUs would hold MBS to maturity in order to minimize systemic loss. Corporate stabilization efforts proceeded based on that assumption. That is a stark contrast to NCUA communications as recent as January 2010 which indicated that corporate balance sheets will be cleaned of other than temporarily impaired (OTTI) and legacy assets. If this is, in fact, a position shift for NCUA it is one that leaves the current proposal out-of-date.

This commentary and the following observations and recommendations will focus on a few key areas of the proposed changes fundamental to the success of both the corporate system, and NPCUs-both large and small.

Corporate Governance

Qualification for the CCU Board

The board of directors of CCUs should have a much higher than average level of understanding and expertise relating to corporate credit unions. On this point we agree.

These directors should be part of the credit union movement, independent from the CCU structure, however not necessarily all from member NPCUs.

The proposed eligibility requirement to be a current NPCU CEO, CFO or COO is overly restrictive and would result in leaving out perfectly qualified individuals, with titles other than those. This requirement is unnecessary and should be eliminated.

Compensation Disclosures

To improve transparency, the proposed rule would require that CCUs annually disclose the compensation of each senior executive officer.

How does the compensation disclosure requirement fulfill the proposal's intended outcome to "...strengthen individual CCUs and the CCU system as a whole"?

Requiring compensation disclosure for each senior executive officer and director is over-regulating and may present hurdles affecting the recruitment and retention of key individuals.

Additionally, this practice will set a dangerous precedent which may ultimately affect NPCU reporting requirements, not the least of which is increased IRS reporting requirements.

Summary Corporate Governance

Placing many of the restrictions noted as "corporate governance" will result in unreasonable regulatory requirements not required of NPCUs at the same time as other proposed changes to make CCUs operate more like NPCUs.

We encourage that regulations allow for options and flexibility, based on the judgment of the CCU and their particular needs, allowing for oversight and accountability on the subject of corporate governance.

Capital Structure

The Missing Link

The proposed capital restructuring requirement is missing a key piece, NCUAs plan for legacy assets.

Requiring a corporate to recapitalize, one year after the publication of the final rule, and before the potential for additional losses on corporate credit union legacy assets is known, will fundamentally result in the failure of the CCU.

The future success of CCUs, and the analysis and model NCUA presents, is based directly on the assumption that NPCUs will rally with additional contributed capital necessary for CCU survival.

NPCUs are still reeling from lost capital, their member's deposits, to cover corporate losses. Without guaranteed protection from potential losses from legacy assets, future capital infusion from NPCUs is a slim-to-none possibility.

NCUA should be forthcoming with a legacy asset solution which would protect newly-contributed capital from exposure to potential losses from legacy assets.

A Final Rule on capital requirements should be postponed until all the information is presented for review and comment.

Transition Period for Recapitalization

NCUA needs to reassess the one-year transition period proposed for CCUs to meet the minimum risk-based capital requirements, until a reasonable time after the implementation of a legacy asset solution, at the very least.

Extinguishment of Capital

To protect the insurance fund, NCUA has required the extinguishment of NPCU capital based on projected losses, without satisfactorily proving that is required under GAAP. Since that step, the valuation of some securities has improved. However, since the NCUA has required extinguishment, the CCU cannot recognize the increased value or return the capital back to NPCUs to offset their losses.

The extinguishment requirement provisions should be removed; and there should be no forced extinguishment of capital until actual cash-flow losses are realized.

Conclusion

In conclusion, the failure of some CCUs came at great expense to natural person credit unions. NPCUs have been subjected to unprecedented monetary losses and a black eye on their reputation. These events have necessitated very uncomfortable conversations with NPCU membership resulting in uncertainty and alarm.

Changes to the current corporate credit union structure are inevitable. However, it is questionable whether any of the current proposals could have prepared the industry for the global changes affecting the financial markets and the subsequent decline of investment portfolios. Reasonable proposals will hopefully shield the industry from future failure. Again, we caution NCUA not to overreact, take prudent steps, and provide appropriate transition time allowing for any

changes to occur in a manner that will not further decay the corporate system or the industry as a whole.

The direction NCUA takes with respect to these rules does not just affect CCUs, they affect most NPCUs. Under current proposals there is serious risk that NPCUs will face lower yields on corporate deposits, very limited loan products, increased costs from fees associated with payment systems, potential changes in other product offerings and fewer competitive investing options, in both short and longer term deposits options.

Again much of the current economic condition was caused by extraordinary market conditions and we urge NCUA not to overreact or over regulate the corporate system.

Thank you once again for the opportunity to provide comments and perspective on these industry-changing issues.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Janet M. Josselyn". The signature is fluid and cursive, with a long horizontal stroke at the end.

Janet M. Josselyn
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Credit Union Association of Oregon
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